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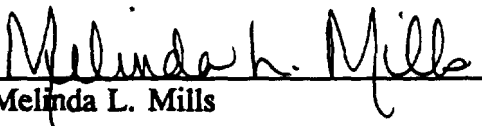
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## **CERTIFICATE OF SERVICE**

I, Melinda L. Mills, hereby certify that I have on this 24<sup>th</sup> day of February, 1997, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Letter of Sprint Corporation on Staff Analysis of Forward-Looking Economic Cost Proxy Models," in the Matter of Cost Models in Universal Service Notice of Proposed Rulemaking, CC Docket No. 96-45, filed this date with the Acting Secretary, Federal Communications Commission, to the persons on the attached service list.

  
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Before the  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )  
 )  
The Use of Computer Models for Estimating ) CCB/CPD Docket No. 97-2  
Forward-Looking Economic Costs -- )  
A Staff Analysis )

REPLY COMMENTS OF  
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company ("SWBT") files these Reply Comments to these limited comments filed in response to the Commission Staff's analysis of various cost proxy models.<sup>1</sup>

**THE PROPOSED COST PROXY MODELS CANNOT BE SUFFICIENTLY  
DEVELOPED, ANALYZED, AND EVALUATED IN THE TIME PERMITTED**

As this cost proxy model process clearly reveals, the participants are being required to shoot at a moving target without sufficient time to aim (and sometimes without even being allowed to see the target). The first of the cost proxy models was made available to the public not even a year ago and, when first released, contained many undocumented assumptions. Since then and bit by bit, more information about the models has been made publicly available. At the same time, however, new models were being introduced and earlier models withdrawn or revised. The Benchmark Cost Model ("BCM") came, only to be replaced by BCM2, which has now been merged with the Cost Proxy Model ("CPM") into the Benchmark Cost Proxy Model ("BCPM"). When the Hatfield Model was introduced, it was Version 2.2.1; now the Hatfield Model has gone through Version 2.2.2 and is at Version 3 ("HM3"). Given continued deficiencies, one expects

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<sup>1</sup> Public Notice, DA 97-56, released January 9, 1997.

that further changes cannot be far behind.

At each step, parties have had to analyze new assumptions, new calculations, and new results of models that remain extremely complex and involve internal calculations that are often far from clear. Many of the deadlines set for those analyses have been unrealistic and the time permitted insufficient. In this proceeding, HM3 was made available only for a few States on February 6, 1997. A complete version of BCPM was made available on February 14th. Due to those release dates, the Common Carrier Bureau granted two extensions, both much needed and appreciated by SWBT. However, with comments due on February 18th and these Reply Comments due six days thereafter, those extensions have not been sufficient to allow for a meaningful review of either the proposed models, their shifting assumptions and structures, and their results, or the comments filed last week. The changes made from the earlier versions were not minor corrections. As AT&T and MCI of HM3 admit, the current version of their HM3 has undergone extensive changes from Hatfield Model 2.2.2.<sup>2</sup> A number of other parties have voiced the same concern over the haste with which this proceeding is being conducted.<sup>3</sup>

Such a hasty process cannot be expected to help the Commission fulfill its statutory and procedural obligations imposed by the Act and otherwise. Parties must be afforded a meaningful opportunity to participate and be heard. Establishing due dates that do not allow for sufficient time to carefully analyze the proposed cost proxy models does not allow for such an opportunity

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<sup>2</sup> AT&T/MCI, pp. 5-8. A party's comments are cited by referring to that party.

<sup>3</sup> Bell Atlantic/NYNEX, pp. 2, 3; BellSouth Corporation/BellSouth Telecommunications, Inc. ("BellSouth"), p. 2; GTE Service Corporation, p. 4; Pacific Bell, p. 12; Rural Telephone Coalition ("RTC"), pp. 3, 4; Sprint Corporation, p. 21; SWBT, p. 15; United States Telephone Association ("USTA"), p. 2; U S WEST, Inc., pp. 2, 3; and WorldCom, pp. 28, 37.

and offends notions of fundamental fairness. Moreover, this proceeding was established to address concerns over the proposed models currently under consideration by the Commission and to help refine them. If insufficient time is permitted for a careful analysis of the models (especially now that new versions have been released), SWBT is at a loss to understand how any interested party can help in fulfilling that purpose.

SWBT does not mean to imply that revisions and new models are a bad thing. To the contrary, the first models were so lacking in any connection to the real world that revisions and replacements were absolutely required. However, the chronology of events clearly indicates that each of the models are a "work in progress" that can be expected to so remain for the foreseeable future. As illustrated in the participants' comments, including those of some model proponents, the models require additional refinement and adaptation before they can yet be adopted.<sup>4</sup> As WorldCom notes, "the cost estimates produced by a cost proxy model are not necessarily the total costs that an individual carrier -- incumbent or new entrant -- actually experiences given its network, demand and services."<sup>5</sup> A tremendous amount of work and development remains before an appropriate and reliable model will be ready for consideration. The time constraints imposed by the Commission or by various statutes thus effectively preclude the adoption or validation of the "final" version of any cost proxy model.

In contrast, the existing cost processes used by the Commission have been constructed

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<sup>4</sup> AT&T/MCI, pp. 13, 14; Bell Atlantic/NYNEX, pp. 11, 12, 16; BellSouth, p. 2; GTE, p. 5; Pacific Bell, p. 4; Pacific Telecom, Inc., p. 2; Public Utility Commission of Texas ("TxPUC"), p. 9; RTC, p. 13; Strategic Policy Research, Inc. ("SPR"), p. 5; Sprint, p. 13; SWBT, p. 13; USTA, p. 12; U S WEST, p. 8; and WorldCom, pp. 37, 38.

<sup>5</sup> WorldCom, p. 5.



and adapted over many years to address multiple purposes and situations.<sup>6</sup> Accordingly, the Commission should continue to use, and as necessary adapt, its current cost processes for use in the "Competition Trilogy." Not until an appropriate, accurate, and valid model reflecting actual network configurations and designs and premised on the actual costs of an operational network is developed should the Commission seek to adopt it.

**THERE IS A GENERAL CONSENSUS THAT ANY MODEL MUST BE  
VALIDATED BEFORE IT CAN BE ADOPTED**

In the comments reviewed by SWBT, a clear consensus emerged that a "validation" process should be adopted.<sup>7</sup> Validating any model is exactly what SWBT and others have been asking for as cost proxy models have been discussed and considered. As the Staff recognizes, validation is important, and will help eliminate unreasonable assumptions and biases. The absence of some means to eliminate models from consideration because of apparent invalidity<sup>8</sup> of results further demonstrates the inappropriateness of adopting any cost proxy model. An independent, verifiable standard for validation simply must first be adopted; otherwise the Commission has no basis for concluding that any model is reasonable.

There is, however, no consensus on what that validation process should be or how any of the proposed processes should be conducted. In light of the comments, there is also no reason to believe that the selection and parameters of a validation process will be any less contested or

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<sup>6</sup> SWBT, p. 6.

<sup>7</sup> AT&T/MCI, p. 10; Bell Atlantic/NYNEX, pp. 2, 3; BellSouth, p. 2; GTE, p. 23; Pacific Bell, p. 10; Pacific Telecom, p. 3; RTC, p. 6; TxPUC, p. 4; SPR, p. 2; Sprint, pp. 6, 7; SWBT, pp. 11, 12; USTA, p. 19; U S WEST, p. 11; and WorldCom, pp. 3, 4.

<sup>8</sup> No test or process can prove the validity of any model. Rather, such mechanisms are employed to demonstrate the degree to which the model or process being assessed is not invalid.

controversial than with the cost proxy models themselves.<sup>9</sup> If the Commission continues to look for a valid proxy model, it must begin now to work to develop a means to eliminate invalid models from consideration. Concurrently, the Commission should continue to seek to develop a cost proxy model in which the results are not driven to any desired outcome other than to produce a reliable replication of actual costs. In the interim, in order to satisfy its statutory obligations, the Commission must continue to use its existing cost processes as the only appropriate and valid measure of costs.

**THE NEW MODELS AND NEWER VERSIONS OF EXISTING MODELS DO NOT ELIMINATE THE PREVIOUSLY IDENTIFIED DEFICIENCIES**

Although time has permitted only limited review of the new cost proxy proposals (including the newly proposed and the newly revised), SWBT believes that many of the deficiencies identified in earlier versions and models have yet to be remedied. For example, SWBT raised concerns with regard to the specification of demand levels as assumed by the proposed models.<sup>10</sup> HM3 continues to rely on stacked assumptions to derive demand data.<sup>11</sup> Similarly, BCPM relies on assumptions regarding demand patterns and line data even though admitting that more accurate details are necessary, especially for the determination of universal service support.<sup>12</sup> Sprint argues that the incumbent local exchange carriers possess the most

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<sup>9</sup> In fact, AT&T/MCI appears to suggest that if their preferred validation process (engineering studies) does not validate HM3, then something must be wrong with reality. AT&T/MCI, pp. 10, 11.

<sup>10</sup> SWBT, pp. 19, 20.

<sup>11</sup> AT&T/MCI, pp. 14, 15.

<sup>12</sup> Sprint, pp. 13-15; U S WEST, p. 19.

accurate data,<sup>13</sup> while AT&T and MCI can only assert that their methods lead only to a "more accurate determination" of demand than that produced by their earlier model.<sup>14</sup>

SWBT has provided a viable means to accurately determine the average fill levels for facilities in the determination of costs.<sup>15</sup> Yet the sponsors of the Hatfield Model propose that no such average (i.e., accounting for variation over time) is necessary. Rather, their model assumes a constant, most efficient fill over the life of the facility.<sup>16</sup> Such an assumption is no more sound or reasonable than assuming the fill is that which is realized at the immediate moment the facility is placed -- zero.<sup>17</sup>

SWBT suspects that those comments are only a start. Given that AT&T/MCI contend that "any cost model should minimize cost" rather than attempt to accurately estimate the actual cost characteristics (either average cost or incremental cost) of a currently operating firm,<sup>18</sup> U S WEST prophetically described the inherent deficiency of all of the currently proposed models, but especially the Hatfield Model.<sup>19</sup> Inasmuch as AT&T/MCI are intent on using their definition of costs to determine the prices that they will pay, HM3 can be expected to contain and carry over

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<sup>13</sup> Sprint, p. 14.

<sup>14</sup> AT&T/MCI, p. 15.

<sup>15</sup> SWBT, p. 21 and Attachment 4.

<sup>16</sup> AT&T/MCI, pp. 15, 16.

<sup>17</sup> One could argue the facility would only be placed if there was at least one additional unit of "fill." In that instance, the appropriate fill would be equal to one unit, which is no more reasonable than that proposed by AT&T/MCI.

<sup>18</sup> AT&T/MCI, p. 13.

<sup>19</sup> U S WEST, p. 3 (the Hatfield Model is aimed at "cost reduction, rather than cost determination").

many of the HM2.2.2 deficiencies that result in unrealistically low costs. SWBT continues to analyze the comments and the cost proxy models as now proposed, and intends on submitting ex partes at the conclusion of its review.

Respectfully submitted,

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In the Matter of )  
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Estimating Forward-Looking Economic )  
Costs )

**REPLY COMMENTS OF U S WEST, INC.**

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